BILL # SB 1543

TITLE: property tax valuation; pipelines

SPONSOR: Martin

STATUS: As Amended by Senate FIN

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FISCAL ANALYSIS

Description

The bill makes several changes to the process used by the Department of Revenue (DOR) to value a pipeline for property tax purposes. Among the major changes, the existing methodology of valuation, which is based on calculating the annual change in earnings and assets, is replaced with a methodology based on the value of the land, personal property, and real property improvements. Under the bill, DOR would be prohibited from including the value of new construction in the overall valuation of a pipeline until the new machinery, equipment, or added pipeline is operational. In addition, the bill allows DOR to make an adjustment to the valuation of a pipeline due to personal property or real property improvements becoming obsolete. The bill also prescribes a method for allocating valuation of a pipeline among taxing jurisdictions.

Estimated Impact

The bill would reduce statewide Net Assessed Valuation (NAV), which would increase the state's share of K-12 formula costs. The total General Fund cost would be some portion of $10.5 million, since that is the amount currently generated from K-12 local property taxes on pipelines. The cost can not be determined with certainty due to a lack of data. That impact, however, could be offset by reducing the cost of automatic Truth in Taxation (TNT) adjustments that are designed to counteract higher assessed values. There will be less of a tax rate reduction since the bill will lower the growth in assessed values. The bill could also result in foregone revenues since it would reduce local property tax collections from new pipeline construction.

The Department of Revenue can not determine the fiscal impact of the bill.

Analysis

Excluding construction in progress from the overall valuation of a pipeline and allowing DOR to consider an obsolescence adjustment would reduce the NAV of existing pipelines. It is unknown if lowering the potential property tax liability would result in additional pipelines being constructed, which would increase statewide NAV.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. These taxes include the Qualifying Tax Rate (QTR) and the County Equalization Tax Rate. The amount of revenue generated from the taxes is dependent on property values. Since the bill would decrease statewide NAV, the state's General Fund obligation under the Basic State Aid formula would increase.

The state also pays a percentage (between 36% and 40%) of residential property taxes through the Department of Education's Homeowner's Rebate program. These residential taxes are assessed through the QTR. While the bill would not affect residential property valuation, it would impact the QTR, which is annually adjusted as part of the TNT program to reflect changes in statewide NAV. Since the bill would decrease growth in statewide NAV, the reduction to the QTR would be less than it otherwise would be without the bill.

The total NAV of pipelines in the state is $259.6 million. School district tax revenue currently generated from the QTR ($3.618) and the County Equalization Tax Rate ($0.4358) from these pipelines, therefore, is approximately $10.5 million. Including the Basic State Aid formula and the Homeowner's Rebate program, the bill would increase state costs by some portion of this amount.

The lower NAV under the bill would generate savings in the cost of the TNT program. The program reduces the QTR and County Equalization Tax Rate to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. The decrease in NAV under the bill would result in a lower reduction of the school district tax rates than under existing law. The higher property tax rates under the bill would result in a smaller General Fund increase to support the K-12 education formula.

It can not be determined how the provision of the bill changing the existing valuation method to one based on the value of the land, personal property, and real property improvements would affect NAV, as there is no available data to assess the impact. In addition, the provision of the bill prescribing a method for allocating the valuation of a pipeline among local taxing jurisdictions would not impact total statewide NAV, but it could affect the NAV of individual jurisdictions. The impact on state costs cannot be determined as it would depend on how the shift in NAV affects local property tax collections.

Local Government Impact

The bill would reduce the NAV of individual taxing jurisdictions and would, therefore, result in a loss of local government property tax revenues. In addition to the QTR and County Equalization Tax Rate, local governments assess various other property taxes. Based on the average statewide combined property tax rate of $11.56, existing revenue generated from all locally assessed property taxes on pipelines is approximately $30 million. Excluding the $10.5 million generated from the QTR and the County Equalization Tax Rate, local governments receive about $19.5 million from property tax revenues, some of which would be lost under the bill. In addition, the bill could shift the tax burden to property owners not directly affected by this legislation.

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